

## Message Text

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E.O. 11652: ADS, DECONTROL UPON RECEIPT

TAGS: EFIN, SA, US

SUBJECT: ARTICLE ON SAUDI INVESTMENT IN U.S.

1. JUNE 8 WASHINGTON POST CARRIES FOLLOWING ARTICLE BY  
HOBART ROWEN:

2. BEGIN TEXT: A KEY SAUDI ARABIAN ECONOMIC ADVISOR SAYS  
THAT HIS GOVERNMENT, THE MAJOR PRODUCER IN THE OIL-EX-  
PORTING CARTEL, IS NOT INTERESTED IN MAKING INVESTMENTS  
IN THE WESTERN WORLD, ESPECIALLY IN THE UNITED STATES.

FAROUK M. AKHDAR, AN AMERICAN-EDUCATED ECONOMIST WHO IS  
CHIEF OF THE TECHNICAL AFFAIRS OFFICE OF THE SAUDI CENTRAL  
PLANNING AGENCY, SAID THAT SAUDI ARABIA WOULD NOT BUY INTO  
COMPANIES OR TRY TO ACQUIRE REAL ESTATE OR OTHER PROPERTIES  
IN WESTERN COUNTRIES.

IN AN INTERVIEW AKHDAR SAID THAT AN ATTITUDE OF SUSPICION  
IN CONGRESS LEADS THE SAUDIS TO BELIEVE THEIR INVESTMENTS  
IN THE UNITED STATES MIGHT NOT BE SAFE.

"WE ARE NOT GOING TO INVEST IN THE WESTERN WORLD AT ALL",  
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AKHDAR SAID. BUT IF THE SAUDIS COULD BE ASSURED OF  
"FRIENDLY RELATIONS", HE ADDED, "WE MIGHT REASSESS THIS  
DECISION".

AKHDAR'S STATEMENT RULING OUT INVESTMENTS IN THE UNITED STATES CONTRADICTS ASSURANCES RECENTLY GIVEN ASSISTANT TREASURY SECRETARY GERALD L. PARSKY BY HIGH SAUDI MONETARY AGENCY OFFICIALS THAT THE SAUDI GOVERNMENT IS INTERESTED IN PORTFOLIO INVESTMENTS HERE, NOT TO EXCEED 5 PERCENT OF ANY ONE COMPANY.

AKHDAR REJECTED AS INACCURATE PUBLISHED REPORTS THAT HIS MISSION IN THE UNITED STATES IS TO USE "THE MONEY WEAPON" TO INDUCE U.S. PRESSURE ON ISRAEL TO COMPROMISE ON OUTSTANDING ISSUES IN THE MIDDLE EAST.

AKHDAR SAID HE IS IN THIS COUNTRY ON A SPEAKING TOUR TO DISPEL "MISCONCEPTIONS" ABOUT HIS COUNTRY, AND TO MEET WITH U.S. OFFICIALS.

HE DISTINGUISHED BETWEEN INVESTMENT AND WHAT HE CALLED "SAVINGS". THE LATTER CATEGORY INCLUDES PLACEMENT OF A PORTION OF SURPLUSES EARNED IN OIL SALES IN U.S. TREASURY BILLS AND SIMILAR SHORT-TERM DEPOSITS.

THE U.S. IS GETTING ITS SHARE OF (SAUDI MONEY IN) DEPOSITS", AKHDAR SAID. BUT HE LEFT THE IMPLICATION THAT IF THE SAUDIS COULD NEGOTIATE "FRIENDLY" DEALS WITH EUROPEAN NATIONS THAT WOULD PROVIDE A BETTER RATE OF RETURN, HIS GOVERNMENT WOULD PULL ITS "SAVINGS" OUT OF TREASURY BILLS.

THE PRINCIPAL MISCONCEPTIONS CONCERNING SAUDI ARABIA, AKHDAR SAID, ARE:

-- THAT PRICE RISES IN OIL MADE EFFECTIVE BY THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES HAVE HAD A SERIOUS ECONOMIC IMPACT ON THE UNITED STATES. LESS THAN 10 PERCENT OF THE OIL THE UNITED STATES CONSUMES COMES FROM ARAB COUNTRIES, AND LESS THAN 25 PERCENT FROM OPEC OVERALL, HE SAID. "WE GET ONLY 30 PERCENT OF THE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FINAL PRICE OF OIL, AND 70 PERCENT GOES TO THE AMERICAN GOVERNMENT THROUGH TAXES".

-- THAT OPEC IS A CARTEL. "A CARTEL SUPPOSES THAT A GROUP OF SELLERS OR BUYERS GETS TOGETHER AND FACES A PERFECTLY COMPETITIVE MARKET", HE SAID. SINCE THE ENERGY-CONSUMING NATIONS HAVE FORMED THEIR OWN "FRONT" HE ARGUED, "AND ARE COLLUDING AGAINST US, THE SITUATION IS

MORE LIKE A BILATERAL OLIGOPOLY THAN A CARTEL."

-- THAT THE ARAB NATIONS WILL NOT RECOGNIZE ISRAEL. "THE

PROBLEM IS NOT BETWEEN THE ARABS AND JEWS, NEVER WAS AND NEVER WILL BE, BUT BETWEEN THE ARABS AND THE INTERNATIONAL ZIONIST MOVEMENT, REPRESENTED BY THE EXPANSIONIST POLICY OF THE STATE OF ISRAEL", AKHDAR SAID. IF THE PALESTINIAN PROBLEM COULD BE SOLVED, THERE WOULD BE NO HESITATION IN RECOGNIZING ISRAEL AS A STATE. "THE EXISTENCE OF THE STATE OF ISRAEL IS NOT DEBATED", HE SAID. "WE HAVE COME A LONG WAY IN SAYING WE WOULD RECOGNIZE ISRAEL". BUT DIPLOMATIC RELATIONS WOULD NOT NECESSARILY FOLLOW, SO FAR AS THE SAUDIS ARE CONCERNED.

THE QUESTION OF SAUDI FINANCIAL SURPLUSES AND INVESTMENT POTENTIAL CONSTITUTES THE FINAL "MISCONCEPTION", AKHDAR SAID.

"SOME PEOPLE THOUGHT WE MIGHT EVEN BE INTERESTED IN BUYING THE ALAMO", HE SMILED.

AT THE PRESENT TIME, HE SAID, "WE ARE NOT GOING TO INVEST IN THE WESTERN WORLD. WE ARE NOT GOING TO INVEST OUTSIDE OF SAUDI ARABIA, EXCEPT WHEN WE WANT TO HELP THE LESS-DEVELOPED WORLD."

HE LISTED THREE BASIC REASONS FOR THE POLICY:

FIRST, "WE ARE A DEVELOPING NATION IN NEED OF FUNDS."  
SECOND, THE RETURN ON INVESTMENT IN SAUDI ARABIA AND IN DEVELOPING NATIONS IS "SUBSTANTIALLY" HIGHER BECAUSE OF THE SCARCITY OF CAPITAL.  
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AND THIRD, "WE ARE NOT SURE WHAT THE ATTITUDE IS TOWARD ARAB INVESTMENT. THERE ARE SO MANY BILLS IN CONGRESS THAT DISCOURAGE INVESTMENT. SO IF WE WANT TO INVEST, AND THAT'S A BIG 'IF', WE WOULD WANT TO KNOW IF THE U.S. IS A SECURE PLACE FOR OUR INVESTMENT."

AKHDAR DENIED THAT THE SAUDI GOVERNMENT HAD CUT BACK PRODUCTION IN ORDER TO PROP UP THE PRICE AT A TIME WHEN A SURPLUS OF OIL IS DEVELOPING. "OIL IS BEING PRODUCED TO MEET DEMAND", HE SAID. "WHEN CONSUMERS CUT DEMAND, YOU CAN'T EXPECT US TO PUMP OIL AND THROW IT INTO THE SEA." THE SAUDIS, HE SAID, ARE READY TO SELL 8.5 MILLION BARRELS A DAY, BUT DEMAND IS RUNNING AT 6.5 MILLION BARRELS A DAY.

ASKED IF THE USUAL ECONOMIC RESPONSE TO FALLING DEMAND IS

NOT A REDUCTION IN PRICE, AKHDAR SAID THAT IT MUST BE REMEMBERED THAT OIL IS A DEPLETABLE RESOURCE. THERE IS AN INTRINSIC VALUE TO IT THAT HAS NOT BEEN REALIZED, AND

IT BELONGS TO EMERGING NATIONS WHO ARE HEAVILY DEPENDENT  
ON THIS OIL FOR THEIR DEVELOPMENT AND THEIR ASPIRATIONS."

IN OTHER APPEARANCES IN THE UNITED STATES IN THE LAST TWO  
MONTHS, AKHDAR HAS HINTED THAT THE SAUDIS MIGHT ABANDON  
THEIR ROLE AS A MODERATE WITHIN OPEC ON PRICING POLICY,  
AND INSTEAD GO ALONG WITH MAJOR PRICE INCREASE THIS FALL  
AS PROPOSED BY THE SHAH OF IRAN. END TEXT.

3. WOULD APPRECIATE ANY COMMENT EMBASSY MAY WISH TO  
MAKE.

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